

PRINCIPAL GROUP LTD. ANNUAL REPORT 1973



EDMONTON, ALBERTA

A PRIME RESIDENCE FOR INTERNATIONAL FUNDS

Edmonton is the head office location of the Principal Group of Companies. Situated along the banks of the beautiful North Saskatchewan River, this capital city of 500,000 continues to be the most economically dynamic city in Western Canada.

Edmonton is Western Canada's educational center. It is home to Canada's third largest university — the University of Alberta; and the Nation's single largest technical school — the Northern Alberta Institute of Technology.

The city supports a professional football team, hockey team, symphony orchestra, opera company, two ballet troupes, and a number of theatre companies. Edmontonians have not only a wide selection of spectator entertainment, but they are also situated in one of the great recreational areas of Canada. Within a few hours drive lie two of the largest mountain parks in the world — Banff and Jasper National Parks.

In 1978 the city will display its international character to the world when it hosts the 1978 British Commonwealth Games.

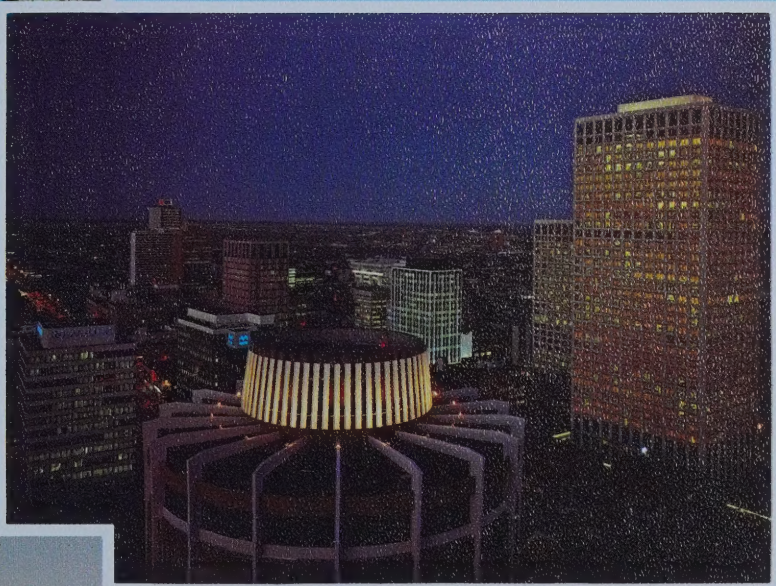
Edmonton is the capital city of the Province of Alberta.

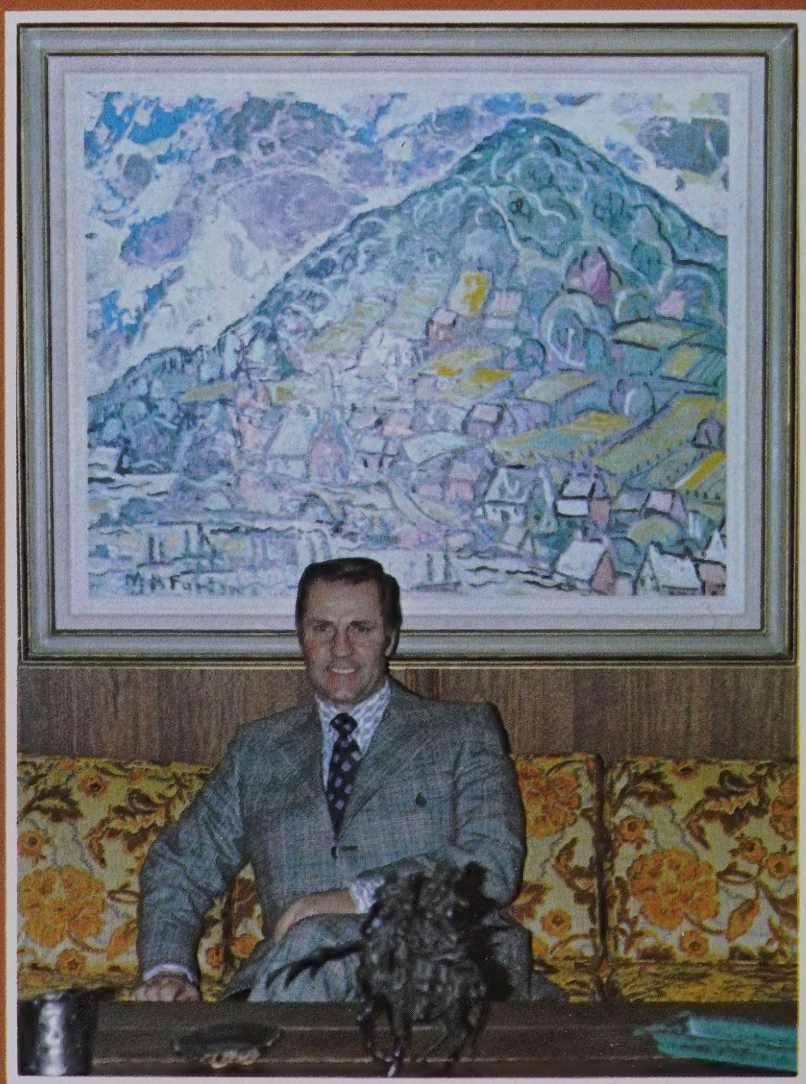
Probably no other Province in all of Canada offers a more receptive atmosphere to international investment. Alberta has no sales tax, no gift taxes, no personal property taxes, no estate taxes or succession duties, and it has one of the lowest debt structures of any Province or State on the Continent.

Yet this Province has all the advantages of a consistent stable government, with substantial oil revenues to reduce its tax requirements. In addition, investors are working with the internationally strong Canadian dollar, freely convertible around the world.

Alberta's reputation as the "Switzerland of North America" is based solidly on the premises of unparalleled recreational and natural attractiveness, a healthy attitude towards foreign capital and scrupulous accountability in the management of financial assets.

Principal Group is perfectly situated to bring all these advantages to the international investor.





PRESIDENT'S LETTER

Principal Group had an outstandingly successful year. We made excellent strides in 1973 in diversifying our activities and the services offered, and in decentralizing the management structure into eight product and "profit centers" from our previous four functional operating divisions.

In addition to Principal Trust, Principal Life and the two Savings Certificate companies, we have completed the organization and licensing of a separate distributing organization, Principal Consultants Ltd., to handle the marketing of our three Mutual Funds and other financial services, and we are grouping our land development and real estate activities under Athabasca Holdings Ltd. The management company, Principal Group Ltd., which provides all research, computer and administrative services, and the two U.S. companies, round out the group.

A major and successful effort was launched to attract and develop qualified executives to head up each one of these operations. We have also seen elected a number of new Directors, and there has been a reduction in the number of overlapping directorships. New chief executive officers were appointed in three companies; Mr. Keith A. Mills, C.A., M.B.A. as President of Associated Investors, Mr. Charles R. McCurdy, C.P.A. as President of Principal Trust, and Mr. Kenneth N. Marlin as President of First Investors. In addition, Mr. Allan Clark has been appointed Vice-President of Associated Investors and Mr. Robert Caithness, F.R.I. as Vice-President of First Investors. Both of these executives were previously with national trust companies. Two long-time executives have been appointed Secretary-Treasurers, Mr. Lorne Kublik, B.Com. in First Investors and Mr. Gary Elliott, R.I.A. in Associated Investors. Mr. D. Ray Held, C.P.A., who was previously with a financial group in the United States, was appointed Secretary-Treasurer of Principal Trust.

We had an historical year in the distributing organization. Over one hundred new Account Executives and representatives joined the Group in 1973. Total sales jumped 44% to \$50,060,000 for an average of just under \$1,000,000 a week for the year. It was eleven years ago that Mr. Don Slater in Calgary was the first Account Executive to pass the million dollars in sales in a year. In 1972 Mr. Grover Compton in Edmonton passed the two million dollar mark and in 1973 both of these executives exceeded \$2,500,000. Twenty representatives qualified for the Million Dollar Club in 1973. This was a particularly outstanding performance, since a large number of competitive sales organizations have completely disappeared over the last three years, and many of those that have survived have had a substantial reduction in the number of agents, and in their sales.

We averaged \$35,000.00 a month in profit before tax. This was up from the previous year but 65% below our objective of \$100,000.00 a month. Special non-recurring write-offs of about \$400,000 provided the major difference. High interest rates had an effect on the operating income of the certificate companies and the lower stock prices slightly reduced income in the mutual fund area. Amazingly enough, we have been able to systematically reduce our net operating expenses during these years from \$2,598,000 (1970), \$2,300,000 (1972), to \$2,000,000 (1973).

We currently have a large market value surplus on real estate, only a portion of which is reflected in the capital account. Management has made its own assessment of market values of the owned real estate, pending additional up-dated appraisals. We conservatively estimate total real estate assets at \$10,000,000, representing an increase of more than \$2,500,000 over book value. No value in Principal Group's reported earnings is placed upon savings plans or mutual fund programs in force, although these presently total \$264,000,000.00.

Later this year we will begin innovations in merchandising our products so that it will be convenient and economical for a customer to do business with more than one Principal Group Company, and thereby further reduce our costs of doing business.

I take this opportunity to thank our shareholders and directors for their continued support. My sincere appreciation and gratitude also go to the employees and officers, for this is the report of their accomplishments. We are still Number Two in our field in Canada, and our group continues to offer exceptional opportunities for dynamic and creative work.

Photo:

Mr. Donald M. Cormie, Q.C. — President, Principal Group Ltd.



BOARD OF DIRECTORS

DONALD MERCER CORMIE, Q.C.

President

Mr. Cormie is the Senior Partner in the Law Firm of Cormie & Kennedy, Edmonton, Alberta. After graduating from the Harvard Law School in 1946, Mr. Cormie became President and a Director of Principal Group Ltd. and a number of its member companies. In addition, Mr. Cormie is past Vice-President for Alberta of the Canadian Bar Association, and has been a member of the National Council for ten years. He is past North-Pacific Area Vice-President of the Young Presidents Organization Inc., and held the positions of Director of the Banff School of Advanced Management (1968-1973), and Director of the Citadel Theatre in Edmonton (1968-1970). Mr. Cormie is married and has eight children.

RAYMOND DENNIS CALLIES, C.A.

General Manager

Mr. Callies is a Chartered Accountant and was Chief Accountant and Treasurer of an industrial company before joining Principal Group as Controller in 1964. He was formerly with Deloitte, Haskins and Sells, Chartered Accountants, and the Department of National Revenue — Taxation Division. In 1969, Mr. Callies was appointed General Manager of the Group. He is married and has one child.

KENNETH NELSON MARLIN

Vice-President

Mr. Marlin joined Principal Group in 1954 as a representative for First Investors Corporation Ltd., and over the years has moved up the Management arm of the Sales Division to his present position as Director and Vice-President for Principal Group Ltd. He is also President of First Investors Corporation Ltd. and Principal Consultants Ltd. A native of Saskatchewan, Mr. Marlin is married and has four children.

JOHN MILLS CORMIE

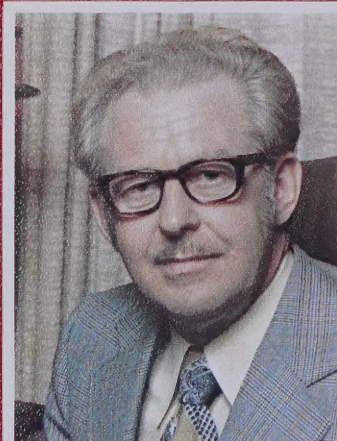
Director

Mr. John Cormie joined Principal Group full-time in 1971. Previous to that, Mr. Cormie attended the University of Alberta. He is an Executive Assistant to the President of Principal Group Ltd. and a member of the Executive Committee of Principal Savings and Trust Company. Mr. Cormie is a native of Edmonton.

Photo:

Board of Directors of Principal Group Ltd.

L to R: Mr. R. D. Callies, Mr. J. M. Cormie, Mr. K. N. Marlin, Mr. D. M. Cormie



SALES AND MARKETING

PRINCIPAL CONSULTANTS LTD.

Principal Consultants Ltd. distributes and markets the products of the Principal Group through its representatives and Account Executives. The men operate from nine regional offices across Canada.

The Account Executive has faced and met many fundamental changes over the last few years. The economic changes of the past five years have resulted in a change in the savings patterns of individuals. Along with the change in savings patterns, individuals have altered their savings preferences. A desire for security and stability in investments signaled a shift from direct participation investments.

The philosophy our representative brings to our customers is "balanced" savings. The shifting savings pattern was accepted and met through the Principal Group's wide range of investment vehicles suited to the current desires of the investing public.

During 1973, the representatives wrote over \$50,000,000 in new business, a 44% increase over 1972's \$35,000,000. In 1972 we had our first Account Executive in the Edmonton Region sell over \$2,000,000 in new business. During 1973, six men wrote over \$2,000,000. In addition, fourteen men sold over \$1,000,000 in 1973.

During the year, over 100 new representatives joined the Group. Correspondingly, the number of new Divisions and Districts doubled during the year. Concurrent with rising numbers, the average sales and earnings per man have risen substantially in the last two years.

The sales force of Principal Group has proven its versatility and the investment programs offered have proven their adaptability to the changing needs of our customers. 1974 promises to become an even greater year for sales activity and results.

HIGHLIGHTS — SALES AND MARKETING

- \$50,000,000 in new business in 1973 up 44% over 1972
- Six men with over \$2,000,000 in new business in 1972
- 100 new representatives
- Division and Districts doubled

Photos:

Top: 1973 Planning Conference: Million Dollar Round Table

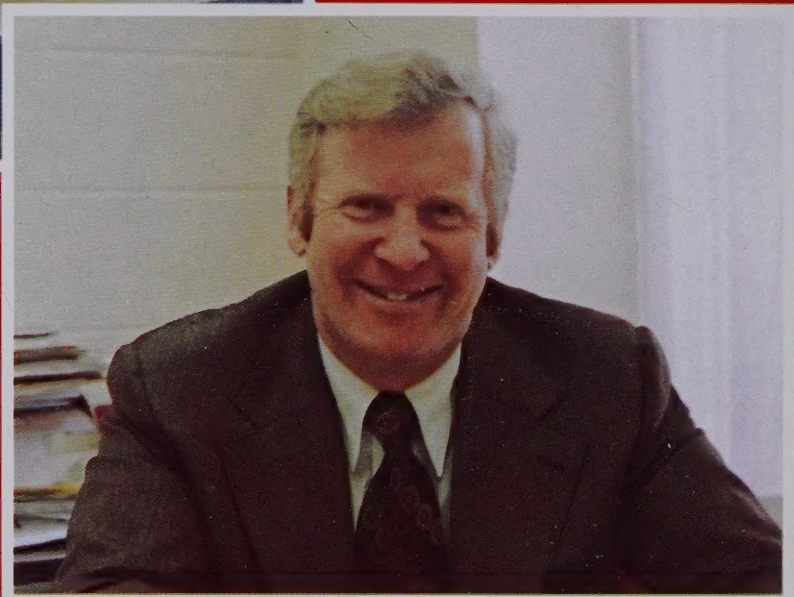
L to R standing: James G. Gilhooly, Percy A. Montrose

L to R sitting: Walter W. Green, Grover Compton, Jay Meyers, James Lindsay, Regnal G. Booth, Raymond Griffin, Murray McKay, Cliff Anderson, Donald A. Slater

Center: Supervisor of Agencies: Mr. R. Gary Elliott, R.I.A.

Bottom: Region Managers

Clockwise: Percy A. Montrose — Atlantic Region; James G. Gilhooly — Edmonton Region; Regnal G. Booth — Calgary Region; Sidney Norris-Jones — Island Region; James H. Mead — Interior Region; Manfred Eck — Vancouver Region



CERTIFICATE SERVICES

FIRST INVESTORS CORPORATION LTD. ASSOCIATED INVESTORS OF CANADA LTD.

FIRST INVESTORS CORPORATION LTD.

First Investors was the first company in the Principal Group and this is its 20th anniversary. It is known as the "Thrift Company", and at no times are its services more in demand than during periods of tight money or economic depression. The reason is that it always provides a minimum guaranteed return to the customer and, on various programs, "additional credits" to increase the return.

Its certificate liabilities are invested only in safe investments that qualify under the Canadian and British Insurance Company Act (Canada) and it maintains at all times a segregated deposit with a Canadian Chartered bank equal to 100% of its cash surrender liabilities. The segregated deposit is reported on quarterly by the shareholders' independent auditors. It is a rapidly growing company, providing a much needed service.

First Investors savings programs are probably the most effective method, for people who have not yet established the habit of thrift and savings, to commence and maintain an investment and savings program for themselves and their families. Money Management Counsellors, some with over 20 years experience, are available to call at any home, days or evenings, to help people more efficiently plan their financial affairs. A simple letter or phone call brings them to the home, from any of the offices across the country. There is no charge for this service since any remuneration is covered by the sales charge only in the event a customer decides to start an investment program.

ASSOCIATED INVESTORS OF CANADA LTD.

1973 was a year of accomplishment for Associated Investors, known as our "Western Canada Company". A new team of professional executives was selected to manage Associated Investors of Canada Limited.

The Company has embarked on a program of concentrating its investment activities in mortgage-financing of growth properties in Western Canada, which has the effect of increasing its cash flow and yield. To achieve this end, the Company disposed of a large number of corporate bonds and debentures in 1973 which were not providing a satisfactory rate of return nor providing the quality of security that the new management required. The Company has already booked any losses suffered on these dispositions, and is now in a good position to rapidly increase its earnings and provide increased returns to investors.

These steps have also given the Company a liquidity it has not experienced since it originally joined the Principal Group in 1962. In turn, it will allow management in its ongoing program to undertake mortgage-financing opportunities it has not been able to consider previously. At the end of 1973 the Company had in excess of One Million Dollars in high-yielding short-term deposits.

1974 is projected for Associated Investors as the year for greatly improved net earnings, and rapidly expanding certificate sales. There are unique opportunities in Western Canada, and Associated Investors will participate in many of them in the coming years.

HIGHLIGHTS—CERTIFICATE SERVICES

- **\$55,000,000 in certificate liabilities carry extra reserves of 7% or \$3,700,000 over their cash surrender values.**
- **Additional credits declared by the Directors up 22% to \$582,000 in 1973.**
- **New sales up 27% to \$28,000,000.**
- **Certificate Business in force of \$137,000,000.**

Photos:

Top Left: President of First Investors — Mr. Kenneth N. Marlin

Top Right: First Investors Executive Committee — L. to R: Mr. L. W. Kublik, Mr. R. C. Caithness, Mr. K. N. Marlin

Bottom Left: Associated Investors Executive Committee — L to R: Mr. A. B. Clark, Mr. K. A. Mills, Mr. R. G. Elliott, R.I.A.

Bottom Right: President of Associated Investors — Mr. Keith A. Mills, C.A.



FINANCIAL STATEMENT

6/14 Gen Felt
18 Winn. S. Table

W.F. = 50 - 75
G-F = 30 - 55
PPE = 65 - 60

Asset = 15 - 15

$160 - 205 = 144 / 18 \text{ mos.}$

Retail/Cash.
PPE - 25
PPL - 45
60

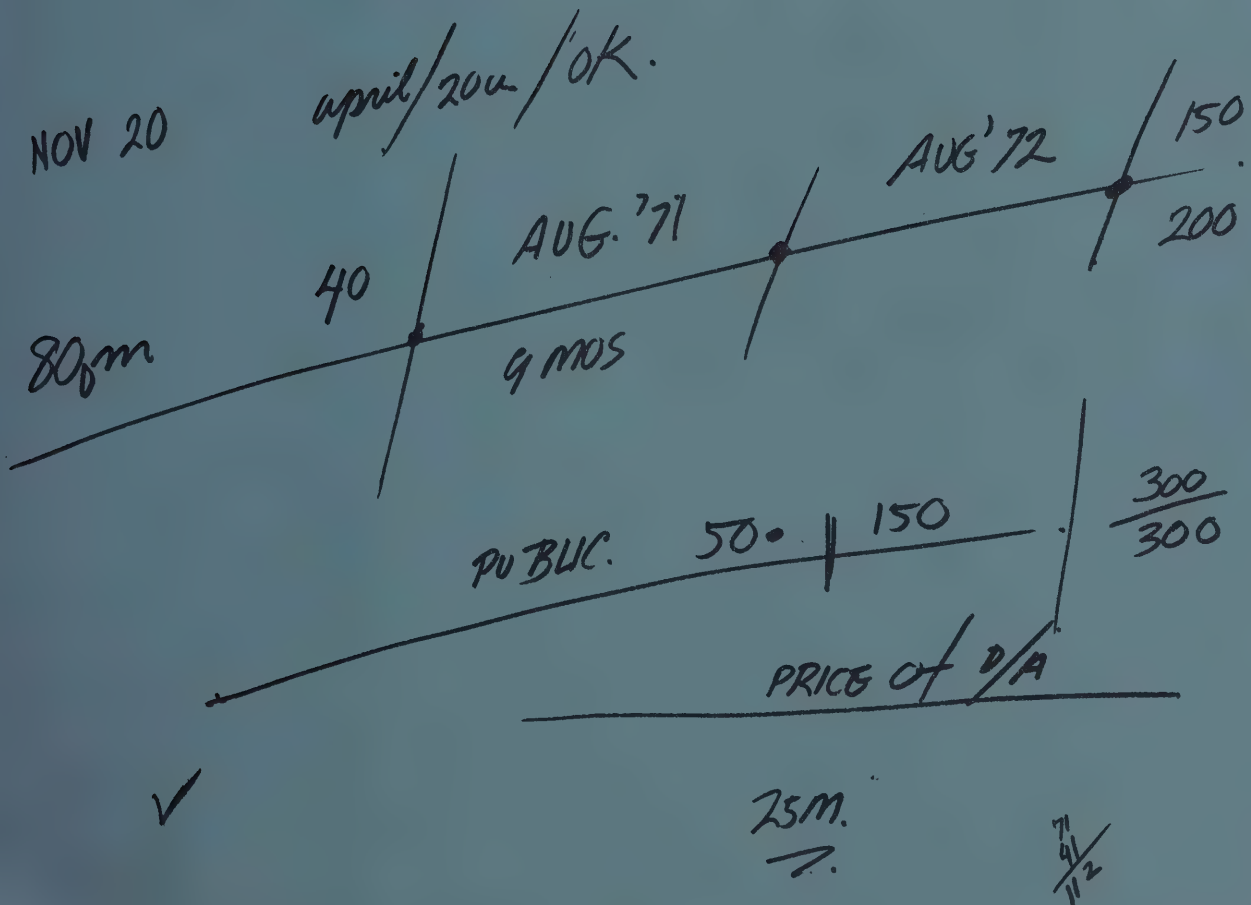
O/A - Cash/Eqr.

E.P.U.M.
30/45-50/90

127 ^{RATE} 2.0

127 20

6/10 50/75.



AUDITORS' REPORT

To the Shareholders of Principal Group Ltd.:

We have examined the consolidated balance sheet of Principal Group Ltd. and its subsidiaries as at December 31, 1973 and the consolidated statements of income, of deficit, and of reserve for redemption of first preferred shares for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

DELOITTE, HASKINS & SELLS

Chartered Accountants

Edmonton, Alberta

February 22, 1974.

CONSOLIDATED BALANCE SHEET (with 1972 figures)

1973	1972
\$ 5,135,276	\$ 5,030,160
1,595,223	—
9,030,716	11,654,253
667,717	1,148,090
835,935	4,754,497
5,575,583	6,223,963
154,430	554,796
16,264,381	24,335,599
46,196,798	40,053,936
5,603,639	3,644,123
2,028,625	1,600,000
7,632,264	5,244,123
92,831	65,708
318,724	318,724
147,024	—
1,297,469	1,003,478
210,105	94,000
4,871,242	4,879,207
\$83,761,337	\$81,024,935

The accompanying notes are an integral part of the financial statements.

PRINCIPAL GROUP LTD.

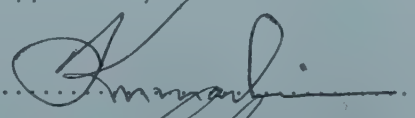

AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1973 (with 1972 figures for comparison)

	1973	1972
INCOME:		
Interest and dividends	\$5,158,940	\$5,104,850
Placement, appraisal and set-up fees	280,028	91,091
Commissions and management services ..	631,548	584,686
Total income	<u>6,070,516</u>	<u>5,780,627</u>
EXPENSE:		
Interest:		
Guaranteed investment certificates and deposits	1,039,133	1,000,268
Certificate liabilities less gain on optional and automatic settlements ..	2,080,723	2,367,903
Additional credits	596,073	454,575
Total interest	<u>3,715,929</u>	<u>3,822,746</u>
Operating expenses less service fees	1,987,978	2,304,974
Total expense	<u>5,703,907</u>	<u>6,127,720</u>
INCOME (LOSS) BEFORE THE UNDERNOTED	366,609	(347,093)
NET INVESTMENT GAINS (LOSSES) LESS PROVISION FOR LOSSES ON REAL ESTATE AND DEPOSITOR'S OVERDRAFTS	68,133	(71,210)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST	<u>434,742</u>	<u>(418,303)</u>
PROVISION FOR INCOME TAXES:		
Current	485,093	505,967
Deferred (recovered)	(116,105)	(199,200)
Net provision for income taxes	<u>368,988</u>	<u>306,767</u>
INCOME (LOSS) BEFORE MINORITY INTEREST	65,754	(725,070)
MINORITY INTEREST IN LOSSES OF SUBSIDIARIES	21,233	13,747
NET INCOME (LOSS) FOR THE YEAR	<u>\$ 86,987</u>	<u>\$ (711,323)</u>

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1973 (with 1972 figures for comparison)

ASSETS	1973	1972
CASH	\$ 5,135,276	\$ 5,030,160
SHORT-TERM CORPORATE NOTES	<u>1,595,223</u>	<u>—</u>
MARKETABLE SECURITIES — at cost (Note 2):		
Government and municipal bonds	9,030,716	11,654,253
Corporation bonds	667,717	1,148,090
Corporation notes and debentures	835,935	4,754,497
Preferred and common stocks	5,575,583	6,223,963
Accrued interest and dividends	154,430	554,796
Total marketable securities	<u>16,264,381</u>	<u>24,335,599</u>
FIRST MORTGAGES AND SECURED LOANS	<u>46,196,798</u>	<u>40,053,936</u>
REAL ESTATE:		
Obtained in satisfaction of debts — at cost including carrying charges of \$836,583 (1972 - \$446,438) not in excess of appraised value of \$6,365,700 (1972 - \$4,855,000)	5,603,639	3,644,123
Held for redevelopment (Note 3 and 4)	2,028,625	1,600,000
Total real estate	<u>7,632,264</u>	<u>5,244,123</u>
INVESTMENT IN AND ADVANCES TO SUBSIDIARIES NOT CONSOLIDATED (Note 1) ..	<u>92,831</u>	<u>65,708</u>
INVESTMENT IN PREFERRED SHARES OF AFFILIATED COMPANY — at cost	318,724	318,724
DUE FROM PARENT COMPANY	<u>147,024</u>	<u>—</u>
ACCOUNTS RECEIVABLE AND OTHER ASSETS	<u>1,297,469</u>	<u>1,003,478</u>
DEFERRED INCOME TAXES — arising on consolidation	210,105	94,000
EXCESS OF COST OF SHARES OF CONSOLIDATED SUBSIDIARIES OVER BOOK VALUE OF NET ASSETS AT DATE OF ACQUISITION	<u>4,871,242</u>	<u>4,879,207</u>
Approved by the Board:		
 Director		
 Director		
TOTAL	<u>\$83,761,337</u>	<u>\$81,024,935</u>

LIABILITIES
CERTIFICATE LIABILITIES
Cash surrender value
Provision for maturities
Total certificate liabilities
GUARANTEED INVESTMENT CERTIFICATES AND
BANK INDEBTEDNESS
INCOME TAXES PAYABLE
DUE TO PARENT AND AFFILIATED COMPANIES
ACCOUNTS PAYABLE ACCRUED CHARGES
DIVIDENDS PAYABLE
MORTGAGES, DEBENTURES NOTES PAYABLE (Note 3)
UNEARNED INCOME
MINORITY INTEREST IN LOSSES OF SUBSIDIARIES
Total liabilities
SHAREHOLDERS' EQUITY
Capital stock:
Authorized (Note 1)
Issued and fully paid
100,000 7% shares
2,800 6% Series
1,000,000 Common
Total capital stock
Reserve for redemption shares
General reserve (Note 3)
(Deficit)
Excess of appraised value over cost (note 3)
Net shareholders' equity

The accompanying notes are an integral part of the financial statements.

AS AT DECEMBER 31, 1973
or comparison)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1973	1972
CERTIFICATE LIABILITIES:		
Cash surrender value	\$55,464,335	\$52,091,642
Provision for maturity	3,426,151	3,149,858
Total certificate liabilities	58,890,486	55,241,500
GUARANTEED INVESTMENT CERTIFICATES AND DEPOSITS	13,434,153	13,933,633
BANK INDEBTEDNESS (Note 4)	1,535,091	1,469,283
INCOME TAXES PAYABLE	541,037	603,544
DUE TO PARENT AND AFFILIATED COMPANIES	11,000	449,621
ACCOUNTS PAYABLE AND ACCRUED CHARGES	454,037	615,128
DIVIDENDS PAYABLE	—	58,210
MORTGAGES, DEBENTURES AND NOTES PAYABLE (Note 5)	5,605,493	5,045,543
UNEARNED INCOME	—	261,000
MINORITY INTEREST IN SUBSIDIARIES	64,073	53,207
Total liabilities	80,535,370	77,730,669
SHAREHOLDERS' EQUITY:		
Capital stock:		
Authorized (Note 6)		
Issued and fully paid:		
100,000 7% Cumulative first preferred shares	2,500,000	2,500,000
2,800 6% Second preferred, Series 1 shares	70,000	70,000
1,000,000 Common voting shares	500,000	500,000
Total capital stock	3,070,000	3,070,000
Reserve for redemption of first preferred shares	300,000	250,000
General reserve (no change during the year) ...	100,000	100,000
(Deficit)	(556,904)	(421,331)
Excess of appraised value of real estate over cost (note 3)	312,871	295,597
Net shareholders' equity	3,225,967	3,294,266
TOTAL	\$83,761,337	\$81,024,935

CONSOLIDATED STATEMENT OF DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1973
(with 1972 figures for comparison)

	1973	1972
(DEFICIT) RETAINED EARNINGS AT BEGINNING OF THE YEAR:		
As previously reported	\$(638,425)	\$ 322,662
Adjustment of certificate liabilities (Note 7) ..	217,094	217,094
As restated	(421,331)	539,756
ADD:		
Net income for the year	86,987	—
	(334,344)	539,756
DEDUCT:		
Net loss for the year	—	711,323
Refundable dividend taxes (recovered) paid less amount applicable to minority interest	(2,440)	24,764
Dividends on first preferred shares	175,000	175,000
Appropriation to reserve for redemption of first preferred shares	50,000	50,000
Net deductions	222,560	961,087
(DEFICIT) AT END OF THE YEAR	\$(556,904)	\$(421,331)

CONSOLIDATED STATEMENT OF RESERVE
FOR REDEMPTION OF FIRST PREFERRED SHARES
FOR THE YEAR ENDED DECEMBER 31, 1973
(with 1972 figures for comparison)

BALANCE AT BEGINNING OF THE YEAR	\$ 250,000	\$ 200,000
ADD:		
Appropriation from retained earnings for the year	50,000	50,000
BALANCE AT END OF THE YEAR	\$ 300,000	\$ 250,000

part of the financial statements.

The accompanying notes are an integral part of the financial statements.

AS AT DECEMBER 31, 1973
(for comparison)

LIABILITIES

CERTIFICATE LIABILITIES:

Cash surrender value

Provision for maturity

Total certificate liabilities

GUARANTEED INVESTMENT CERTIFICATES AND DEPOSITS

BANK INDEBTEDNESS (Note 4)

INCOME TAXES PAYABLE

DUE TO PARENT AND
AFFILIATED COMPANIES

ACCOUNTS PAYABLE AND
ACCRUED CHARGES

DIVIDENDS PAYABLE

MORTGAGES, DEBENTURES AND
NOTES PAYABLE (Note 5)

UNEARNED INCOME

MINORITY INTEREST IN SUBSIDIARIES

Total liabilities

SHAREHOLDERS' EQUITY:

Capital stock:

Authorized (Note 6)

Issued and fully paid:

100,000 7% Cumulative
shares

2,800 6% Second
Series 1 shares

1,000,000 Common votes

Total capital stock

Reserve for redemption of
shares

General reserve (no change)

(Deficit)

Excess of appraised value of
over cost (note 3)

Net shareholders' equity

TOTAL

part of the financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1973

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the following subsidiary companies:

First Investors Corporation Ltd.

Associated Investors of Canada Ltd.

Principal Savings and Trust Company

Principal Life Insurance Company of Canada

Principal Service Inc.

Principal Consultants Ltd.

Mercer & Williams Agency Ltd.

Athabasca Holdings Ltd. and its wholly-owned subsidiaries

The accounts of Collective Mutual Fund Ltd. and Principal Venture Fund Ltd. have not been consolidated as the company's equity in the net assets of these Mutual Fund companies is less than 1%.

2. MARKETABLE SECURITIES

Statutory values of marketable securities determined in accordance with the statutory regulations applicable to the respective companies are as follows:

	1973	1972
Government and municipal bonds (market value 1973 - \$7,280,960; 1972 - \$10,300,684)	\$ 9,030,716	\$11,654,253
Corporation bonds (market value 1973 - \$602,349; 1972 - \$1,119,685)	667,717	1,159,017
Corporation notes and debentures — principal balance (market values not readily available)	835,935	4,754,497
Preferred and common stocks (market values 1973 - \$3,584,795; 1972 - \$5,348,852)	4,207,616	5,348,852
Accrued interest and dividends receivable	154,430	554,796
	<u>\$14,896,414</u>	<u>\$23,471,415</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — Continued

3. REAL ESTATE — HELD FOR REDEVELOPMENT

Real estate, held for redevelopment consists of the company's 102nd Street property holdings and is valued as follows:

	1973	1972
6 commercial lots acquired at an original cost of \$1,131,541 plus net carrying charges of \$155,588 (1972 - \$172,862)	\$ 1,287,129	\$ 1,304,403
Appraisal surplus thereon	312,871	295,597
At appraised value	1,600,000	1,600,000
2 adjoining commercial lots acquired during 1973 at an original cost of \$437,000 less net carrying charges recovered of \$8,375	428,625	—
TOTAL	\$ 2,028,625	\$ 1,600,000

The six commercial lots were appraised by Jellis Appraisal Co. Ltd. dated May 5, 1973 considering such site for redevelopment purposes.

4. PLEDGED ASSETS

The common and preferred shares of a subsidiary company First Investors Corporation Ltd., are pledged as security for bank indebtedness and a debenture payable.

Approximately 20% of the common shares of a subsidiary company, Principal Savings & Trust Company, together with certain real estate for redevelopment are pledged as security for certain mortgages, debentures and notes payable.

5. MORTGAGES, DEBENTURES AND NOTES PAYABLE

Mortgages, debentures and notes payable consist of the following:

	1973	1972
8½% Due in monthly instalments of principal and interest of \$46,000 ..	\$ 3,017,840	\$ —
8% Due in monthly instalments of principal and interest of \$25,000 ..	—	1,534,431
10% to September, 1977; due thereafter without interest in 60 equal monthly instalments	—	1,150,000
6.269% Due 1983	—	1,130,136
8½% Due 1983	715,000	715,000
10 - 10½% Due 1978	397,589	—
9½% Due in monthly instalments of principal and interest of \$6,250 plus a lump sum payment of \$40,000 due in 1974	404,756	—
Other mortgages and notes payable	986,358	463,043
Accrued interest	83,950	52,933
TOTAL	\$ 5,605,493	\$ 5,045,543

6. CAPITAL STOCK

Authorized share capital:

200,000 7% Cumulative first preferred shares redeemable at \$26.75

200,000 Non-cumulative redeemable second preferred shares of a par value of \$25 each issuable in series. Series 1 redeemable at \$26.50

1,000,000 Common voting shares of no par value

1,000,000 Common Class A non-voting shares of no par value

The following rights and conditions apply, among others, to the capital stock:

(a) The company shall, on the first day of September in each year, commencing in the year 1968, enter on its books to the credit of a redemption fund for the first preferred shares an amount to be used for the purchase of first preferred shares which shall be equal to 2% of the aggregate par value of the first preferred shares outstanding on the thirtieth day of June in such year.

(b) No dividends shall be declared or paid on common shares unless declared and paid firstly on the preferred shares.

7. RESTATEMENT OF RETAINED EARNINGS

In 1970, certain subsidiary companies changed their method of accounting for certificate liabilities to record the amortization of set-up costs over the terms of the related certificate plans. The calculations relating thereto were conservatively estimated as the necessary computer programs were not available. In 1973 the required programs became operational and a further adjustment of \$218,736 was required which is reported as a retroactive adjustment to retained earnings net of minority interest therein of \$1,642. There is no income tax effect on the above adjustment.

THE PRINCIPAL GROUP OF COMPANIES

Based on the original philosophy of the Company, we are continually attempting to create in our customers a desire to become financially independent by setting aside small amounts of money at regular intervals, through the use of various savings plans. We have a variety of products that suit the needs and requirements of the public through which they may accomplish their financial goals. In addition, the Group offers programs that are suitable for the investor who has larger amounts of capital and is seeking a safe haven for these funds. This grouping of financial services is unavailable to the individual from other companies in Canada, and it may be truly said that the Group is "The Department Store of Finance".

PRINCIPAL GROUP LTD.

A Canadian company which is the parent of most of the other companies in the group. It provides offices, administrative services and computer services for the other member companies.

FIRST INVESTORS CORPORATION LTD.

Distributor of savings certificates and mutual funds in seven Provinces in Canada. Founded in 1954, the first company in the group. Investments are of the type permitted under the Canadian and British Insurance Companies Act (Canada).

ASSOCIATED INVESTORS OF CANADA LTD.

Distributor of savings certificates in the Province of Alberta. Founded in 1948, it is the oldest company, and joined the Group in 1962. Investments are of the type permitted under the Canadian and British Insurance Companies Act (Canada).

PRINCIPAL SAVINGS AND TRUST COMPANY

A Trust Company operating in six Provinces of Canada. A member of the Canada Deposit Insurance Corporation, it offers a full range of trust services including investment funds. Founded in 1965, Principal Trust is the investment manager for Collective Mutual Fund Ltd., Principal Growth Fund, and Principal Venture Fund Ltd.

PRINCIPAL LIFE INSURANCE COMPANY OF CANADA— LA PRINCIPALE DU CANADA, COMPAGNIE D'ASSURANCE VIE

A federally chartered company, it offers low-cost life insurance designed to supplement other financial services. Future plans call for expansion into the international field with equity based policies.

PRINCIPAL CERTIFICATE SERIES, INC.—PRINCIPAL INVESTORS CORPORATION

The American affiliates of Principal Group, headquartered in Seattle, Washington, these Companies issue and distribute face amount certificates in the United States.

PRINCIPAL CONSULTANTS LTD.

Principal Consultants Ltd. distributes and markets the products of the Principal Group through its representatives and Account Executives. It operates from nine regional offices throughout Canada.

ATHABASCA HOLDINGS LIMITED

Athabasca Holdings is the holding company for real estate activities for Principal Group. Its operations include land assembly, land development, and related real estate marketing activities.



ADMINISTRATION AND COMPUTER SERVICES

PRINCIPAL GROUP LTD.

In keeping with Principal Group's determination to provide the most up-to-date services with available technology, Principal Group Ltd. has purchased and is presently installing a Univac 9480 computer facility, providing over eight times the capacity of the previous I.B.M. 360/30 system. For the first time we can plan for free-standing "banking terminals" in the trust offices to increase our efficiency in handling chequing and savings accounts. We can also plan for "optical terminals" in the other offices with all accounts and all companies "on line" at all times.

The increased pace of information output will allow for weekly instead of monthly "spread reports" and cost and profit analysis, as well as providing quick, accurate information to over 100,000 customers.

Increasingly the Administration Department will be providing the other companies with not only increased information output, but with the management controls and tests for accurate appraisal of individual management teams.

Essentially the management of all companies will be analyzed by a separate Performance Review Committee on a Management By Objective basis. The centralized facilities of administration will apply consistent standards to measure performance.

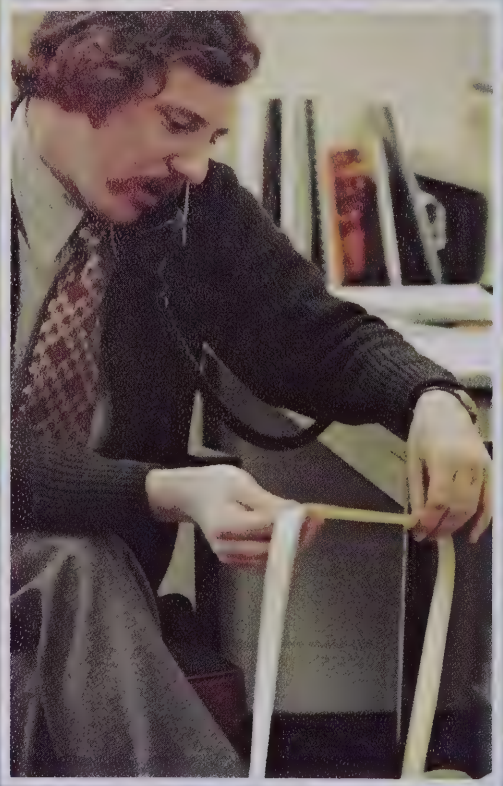
The first objective of course will be the "bottom line" figures reported by the Chief Executives. In addition, though, management will be analyzed according to principles of prudent business practice, strategies consistent with economic projections, and involved commitment by each management group.

Photos:

Top: General Manager of Principal Group — Mr. R. D. Callies, C.A.

Center: UNIVAC 9480

Bottom: Manager Information Services — Mr. L. P. Petersson, R.I.A.



MUTUAL FUNDS

COLLECTIVE MUTUAL FUND LTD. PRINCIPAL VENTURE FUND LTD. PRINCIPAL GROWTH FUND.

Principal Group considers Mutual Funds to be one of the major investment vehicles for the late Seventies for the investor able to assume some risk. The Group proposes to be in the forefront of Mutual Fund Management in Canada.

Three years ago our 1970 Annual Report stated: "With the predicted easing of interest rates we expect our mutual funds to demonstrate a good competitive return in 1971 and 1972." We anticipated 1973 would be a year of adjustment. We feel the record below bears us out.

PER CENT CHANGE FOR EACH YEAR

	1973	1972	1971
PRINCIPAL GROWTH FUND (includes re-invested capital gains distribution)	-15.7%	+27.6%	+15.2%
COLLECTIVE MUTUAL FUND LTD. (includes re-invested dividends)	-28.2%	+21.7%	+11.6%
PRINCIPAL VENTURE FUND LTD.	-19.9%	+46.6%	+13.2%
DOW JONES INDUSTRIAL AVERAGE	-16.6%	+14.6%	+ 6.2%

1973 was a chaotic year in the world economy, particularly reflected in unsettled monetary conditions. This produced a lack of investor confidence and sagging equity prices. Given the high rates of return available on short-term monetary instruments and the nervous and confusing financial atmosphere, many investors stayed short and liquid.

We feel that over the last twenty years we have developed a special expertise in economic simulation and forecasting which will be of special benefit to many of our customers. We are only now able to apply this expertise for the benefit of our customers.

Our projections for the stock market indicate a minor high point in early 1975 followed by lower prices and a major buying opportunity at the end of 1975. This will be followed by a major bull market through 1976 to 1978. Accordingly, we believe the next two years present an excellent opportunity for new customers to get started on their basic investment programs. They will then be in place with substantial investment funds to fully participate in the outstanding gains which we believe will be achieved in 1976, 1977, and 1978.

Principal Group's proven record of management combines with the simple yet powerful concept of diversification. Because you are buying a group of diversified securities, constantly reviewed by full-time money managers, the risk is spread and reduced. Our investments are based solidly on the premise that over the long haul our economy will continue to expand and flourish and thus hedge your investment dollar against the inroads of inflation.

Photos:

Prairie Region of Canada

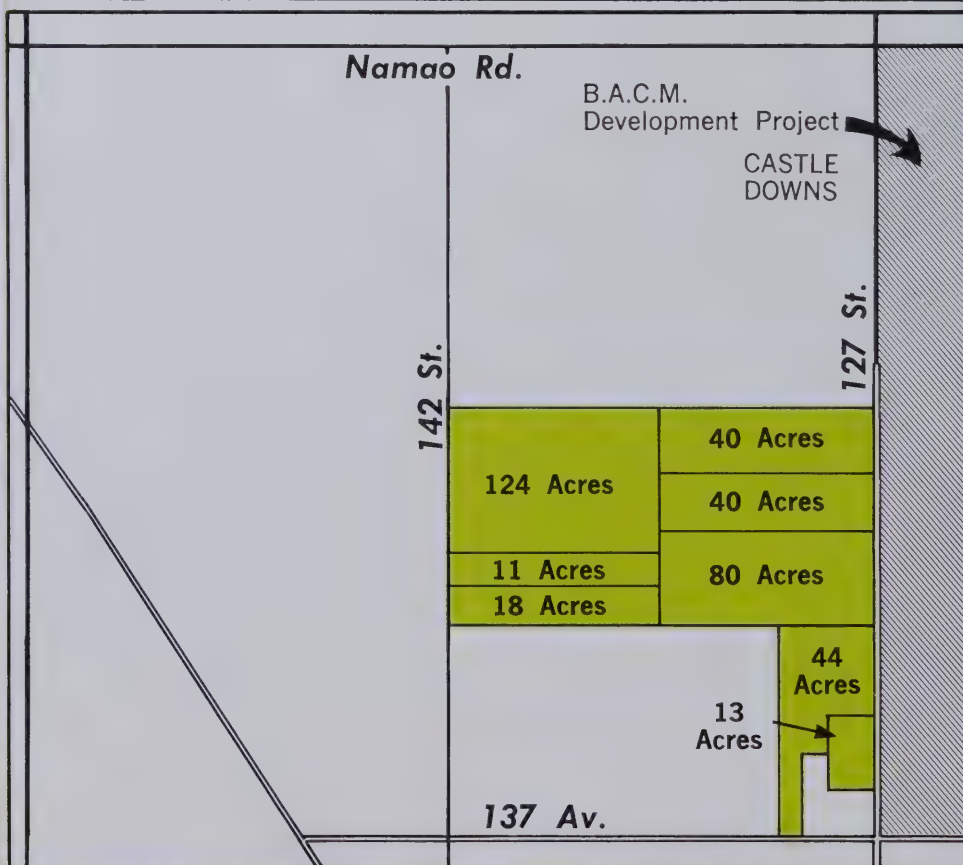
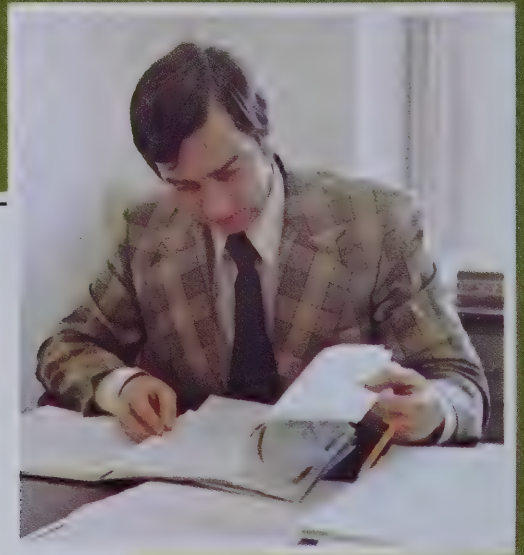
Top: Portfolio Manager — Robert Hollingshead

Bottom: Senior Portfolio Manager — Glen H. Harper

EDMONTON		
Principal Group Property		

	103 St.	71	LANE	86	102 St.
		70		87	
		69		88	
		68		89	
		67		90	
		66		91	

100 Av.



REAL ESTATE

ATHABASCA HOLDINGS LIMITED

Principal Group Ltd. holds 60,000 square feet — about an acre and one half — of key real estate in the very center of the City of Edmonton. The property extends over an entire city block between 102 and 103 Streets, on the north side of 100th Avenue. This immediately adjoins the Chateau Lacombe Hotel, Edmonton's largest, and the Cenotaph.

Nearby properties are in great demand. European financial interests purchased in the last few months, for \$110.00 a square foot, the large Johnstone Walker site, across the street and only 300 feet away. These "core" locations in Edmonton can be connected to the underground "shopping mall" system which inter-connects all major buildings, hotels and stores in year-round comfort, cleanliness and convenience without regard to climate or weather. This provides business facilities equal to any in the world. It is no wonder that "core real estate" prices have been increasing at an average rate of 19.43% since 1969 and are accelerating at an even faster rate during the current period of inflation.

The real demand for commercial facilities, however, has barely started. The recreational facilities for the "Commonwealth Games" to be held in Edmonton in 1978; the tens of billions of dollars to be invested in the Athabasca Tar Sands, one of the largest oil reserves in the world, only a few hundred miles to the north; the multi-billion dollar MacKenzie Valley pipeline; numerous multi-million dollar manufacturing and petrochemical plants establishing around the low cost energy; extensive additional federal and provincial government facilities — all these require large scale support facilities and the type of commercial and business infra-structure only a major city can provide. On top of this, over half of all the remaining undeveloped agricultural land in Canada lies immediately north of the City of Edmonton.

In addition to the "core" area real estate, the companies hold a single site with a net interest approximately 300 acres located on 137 Avenue and 127 Street in the City of Edmonton, including all of "Speedway Park". This property is strategically located on rail lines and the proposed "ring road" and is planned for a future commercial and industrial park.

The companies also have the second stage of a major subdivision in progress in the City of Saint John in New Brunswick, and 170 acres adjoining the City of Saskatoon in Saskatchewan.

Photos:

Top: Mortgage Manager: Mr. C. W. Green

Bottom: Athabasca Holdings Ltd.: Edmonton Property



TRUST SERVICES

PRINCIPAL SAVINGS & TRUST COMPANY

Principal Savings and Trust Company operates in six Provinces and has full service offices in Edmonton and Vancouver. Principal Trust offers a full range of Trust Services and is the investment manager for Collective Mutual Fund Ltd., Principal Growth Fund, and Principal Venture Fund Ltd.

Mr. Charles R. McCurdy, C.P.A., was appointed President of Principal Trust. He brought with him extensive experience in the Savings and Loan industry in the United States, as well as five years as Treasurer of the Government of the Northwest Territories where he directed the Finance and Administration Department.

Mr. D. Ray Held, C.P.A. was appointed Secretary-Treasurer of Principal Trust in 1973.

1974 will see the strengthening of the retail operations in Vancouver and Edmonton. Emphasis will be placed on savings and chequing accounts, and to this end, a co-ordinated marketing program has been instituted.

In addition, the Trust Offices will become more involved in the retailing of new products and services. Particularly stressed will be the Mutual Funds and Registered Retirement Savings Accounts. An active program of development of Self-Administered Registered Retirement Savings Plans has been initiated with several national securities brokers. The assets of these plans are invested by the individual in qualified stocks. The Company has also developed similar contacts with several mortgage brokers.

The Real Estate Brokerage Division has continued to be very active in the industrial and commercial real estate area. 1974 will see a major expansion of our Real Estate Division into the residential market.

Principal Trust offers a variety of services from Guaranteed Investment Certificates to General Insurance, Pension Fund Management, Administered Trusts, and other Trust and Fiduciary services. In other words, Principal Trust is the Company that has all the products and services that will fit the individual's total financial needs.

Principal Savings and Trust Company is a member of the Canada Deposit Insurance Corporation.

SERVICES AND FUNCTIONS:

Savings Accounts

Chequing Accounts

Current Accounts

**Guaranteed Investment
Certificates**

Short-term Deposits

First Mortgage Loans

**Consumer and Personal
Loans**

Mortgage Management

Mortgage Banking

**Interim Construction
Loans**

**Secondary Mortgage
Financing**

**Registered Retirement
Savings Plans**

Real Estate Sales

Real Estate Appraisals

Real Estate Management

**Managed Investment
Funds**

Photos:

Pacific Region of Canada

Top: President of Principal Trust — Mr. Charles R. McCurdy, C.P.A.

Bottom: Principal Trust Executive Committee —

L to R: Mr. D. R. Held, Mr. C. R. McCurdy, Mr. K. N. Marlin, Mr. J. M. Cormie

HEAD OFFICE

Principal Group Ltd., Cambridge Building,
Edmonton, Alberta, T5J 1R9 (403) 429-5361

SALES DEPARTMENT

R. Gary Elliott, R.I.A., Sales Administration
Peter Atkinson, Sales Training

INVESTMENT DEPARTMENT

Glen H. Harper, Senior Portfolio Manager
Robert Hollingshead, Portfolio Manager
Gae Gray, Supervisor

MORTGAGE DEPARTMENT

Robert C. Caithness, Vice-President
Allan B. Clark, Vice-President
C. William Green, Manager
Wayne Fuhr, Collection Manager
D. Robert Cormie, Placement Officer

ADMINISTRATION

Frances Ross, Supervisor, Cert. Settlements
Irene Pratt, Senior Accountant
Iris Olson, Customer Accounting
Olga Loga, Mutual Fund Accountant
Eric Espenberg, Office Manager
Olecia Buhay, Personnel
Loretta Fischer, Customer Service
Maureen Eggertson, Customer Service
Ella Kelly, Customer Service

INFORMATION SERVICE DEPARTMENT

Len P. Petersson, R.I.A., Manager
Rudi Reider, Systems Manager
Alex Babich, Systems Manager

LEGAL DEPARTMENT

John E. Hart, Q.C., General Counsel
Addy Smith, Legal Assistant

REGIONAL OFFICES

VICTORIA

1831 - Fort Street (604) 598-4524
Sidney Norris-Jones, Region Manager
William McAteer, Victoria Division Manager

VANCOUVER

720 Sixth Street, New Westminster, B.C.
(604) 526-1851
Manfred Eck, Region Manager
Don Evans, Vancouver Division Manager
Jim Lindsay, Burnaby Division Manager
Ross Stewart, Vancouver Division Manager

EDMONTON

10011 - 103 Street, 2nd Floor
(403) 423-3237
James G. Gilhooly, Region Manager
Jerry Kennie, Edmonton Division Manager
Martin King, Edmonton Division Manager
Robert Leer, Peace River Division Manager

KELOWNA

103 - 591 Burnard Ave. (604) 763-7211
James H. Mead, Region Manager
Ben Matthies, Prince George Division Manager
Glen MacKinnon, Kamloops Division Manager

CALGARY

816 5th Ave. S.W. (403) 264-3474
Regnal G. Booth, Region Manager
Wallace Noble, Calgary Division Manager

LETHBRIDGE

309 - 6 Street South (403) 328-2188
William D. Henderson, Manager

HALIFAX

Ste. 269 Starlight Gallery
Bayers Road Shopping Center (902) 423-6329
Percy A. Montrose, Region Manager
Murray McKay, Sydney Division Manager
Ray Griffin, Charlottetown Division Manager
Bernard Butler-Gray, Fredericton Division Manager
John Patterson, Halifax Rural Division Manager

SASKATOON

1219A - 8 Street E. (306) 343-8282
George Driedger, Region Manager
Donald Goode, Regina Division Manager

ST. JOHN'S, NFLD.

302 LeMarchant Road
(709) 726-0345

TRUST OFFICES

MAIN OFFICE — EDMONTON

McCauley Plaza
10025 Jasper Avenue
(403) 423-2265
F. D. Marson, Manager
Lynda Roe, Customer Services
Real Estate Division
10011 - 103 Street
(403) 429-4711
Gordon Peterson, Manager

VANCOUVER

918 West Pender Street
(604) 688-0411
Don Wilson, Manager

OFFICERS

DONALD M. CORMIE, Q.C.
President and Chief Executive Officer

RAYMOND D. CALLIES, C.A.
General Manager

KENNETH N. MARLIN
Vice-President

D. RAY HELD, C.P.A.
Controller

REGINALD G. FERGUSON, M.B.A.
Executive Assistant

ROBERT D. LANGSTON, C.A.
Executive Assistant

JOHN M. CORMIE
Executive Assistant

ACCOUNT EXECUTIVES

Donald A. Slater, Calgary
Walter W. Green, Calgary
Bartley Brown, Calgary
Grover Compton, Edmonton
Arthur G. Rolfe, Edmonton
Urban H. Badry, Edmonton
Norman LeBlanc, Moncton
Cliff Anderson, Kelowna
Jay Meyers, Vancouver

PRINCIPAL GROUP LTD.

